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DEPARTMENT FOR EUR/RUS AND OES/IHA
HHS FOR OGHA/STEIGER, SAWYER, ESSIET-GIBSON

E.O. 12958: DECL: 03/06/2017
TAGS: [TBIO](#) [ETRD](#) [ECON](#) [SOCI](#) [PGOV](#) [PINR](#) [RS](#)
SUBJECT: SENIOR HEALTH OFFICIAL TAKES THE FALL FOR MINISTER

REF: A. 06 MOSCOW 13072
[1](#)B. 06 MOSCOW 12814
[1](#)C. 06 MOSCOW 4035

Classified By: EST Counselor Daniel J. O'Grady, Reasons 1.4(b,d).

[1](#)1. (C) SUMMARY: On March 5 Prime Minister Fradkov fired Ramil Khabriyev, head of the Russian Federal Supervision Service for Health Care and Social Development (Roszdravnadzor). Fradkov cited continuing problems with inconsistent supply and deficit spending for drugs provided under the government's benefits program for the disabled, retirees, and low income families. Despite deficit spending under the program in 2006, and continued underfunding in 2007, President Putin, Fradkov, and First Deputy Prime Minister Medvedev have assured the public that the program will be fully funded. Yet many drug distributors and producers still have not been paid for drugs they supplied under the program in 2006. For the moment, despite a cascade of recent scandals and missteps (Refs A and B), Health and Social Development Minister Zurabov appears safe, although there are signs the Kremlin's confidence in him is waning. President Putin scolded Zurabov over the poor implementation of the drug benefits program at a meeting with the Cabinet February 26, and tasked Medvedev to resolve the problems. In his March 5 webcast, Medvedev indicated that Zurabov was living on borrowed time. United Russia and Just Russia Duma Deputies this week wrote an "ultimatum" to Zurabov proposing that he either resign or solve the problems by March 20. The majority of our contacts believe Khabriyev was fired as the fall guy to protect Zurabov, but many observers maintain Zurabov will ultimately be sacked when politically beneficial, either before the November Duma elections or the March 2008 presidential election. END SUMMARY.

Deficit Spending and Supply Disruptions

[1](#)2. (SBU) The government budgeted 29 billion rubles in 2006 to pay for a program to provide drugs to social welfare beneficiaries, including the disabled, retirees, and low income families. That money ran out in July 2006, and the government incurred an additional 31 billion rubles in debts to drug makers and suppliers who continued to supply drugs under the program for the remainder of the year. Health Ministry officials put forward various explanations for the difficulties in funding the program, including the high price of certain medicines. They also suggested that doctors had written too many prescriptions for expensive medicines, rather than subscribing cheaper alternatives, possibly as a result of lobbying from drug companies and distributors. In 2007, several expensive medicines were removed from the list of drugs available under the program to try to minimize

costs.

13. (SBU) Drug producers and suppliers suffered financially because they weren't fully paid for 2006, and this led to supply disruptions in 2007. Dozens of regions reported supply problems under the program in January and February. For instance, in February in Rostov Oblast, there were widespread shortages of insulin, which forced many diabetics to check themselves into the hospital to receive routine injections. Groups representing Russian diabetics and hemophiliacs recently wrote to President Putin complaining about shortages of the everyday drugs on which they rely.

Is Corruption Really to Blame?

14. (C) Corruption also played a role in the program's burgeoning expenses. The program is funded by the Federal Mandatory Health Insurance Fund, whose top management was sacked in late November 2006 and is now under indictment for bribery and kickbacks in organizing the drug tenders for the program (Ref B). The Fund reports to the Health and Social Development Ministry.

15. (SBU) While the 2007 budget included an additional amount to cover the deficit spending in 2006, that amount was insufficient to cover the entire shortfall. The Duma has approved an additional 16 billion rubles to fund the deficit spending in 2006, but by our calculations, as much as 25 billion rubles more will be needed to fully cover the program's expenses and fully reimburse drug suppliers and producers.

The Kremlin Weighs In

16. (SBU) President Putin scolded Health and Social Development Minister Zurabov over the problems with supply and financing of the drugs program at a regular meeting with the Cabinet on February 26. He tasked First Deputy Prime Minister Medvedev to help the Ministry resolve the problems and instructed the Ministry of Finance to fully fund the program.

17. (SBU) Ramil Khabriyev, the head of the Federal Supervision Service for Health Care and Social Development (Roszdravnadzor), recently stated publicly that the Mandatory Health Insurance Fund was to blame for the problems, since it controlled both the financing and procurement of drugs under the program. Since the Fund, rather than Roszdravnadzor, played the primary role in implementing the program, it was somewhat puzzling when Prime Minister Fradkov announced March 5 that Khabriyev was being fired for the program's problems. However, with all of the Insurance Fund's heads already dismissed and indicted last November (Ref B), some observers suggested Khabriyev was sacrificed since there was no one significant left to fire at the Fund.

18. (SBU) Putin, Fradkov, and Medvedev have all sought to reassure the public that the drug program's problems will be sorted out within the next few weeks. The United Russia and Just Russia Duma factions have also presented Zurabov with an "ultimatum" to either suggest how to fix the program's problems by March 20, or to resign. A March 7 scheduled appearance by Zurabov before the Duma was canceled.

Khabriyev Takes the Fall for his Boss

19. (C) Most of our public health contacts believe Khabriyev is the fall guy allowing Zurabov to keep his post, at least temporarily. Zurabov also announced March 5 that several regional public health officials would be fired in the coming days over the problems with the drugs program.

110. (C) Khabriyev, a medical doctor and the former Health Minister for the Republic of Tatarstan, has spent the last 12 years in Moscow working in various official positions

regulating pharmaceuticals and medical equipment. He is well-connected to Russian pharmaceuticals production and distribution business interests. His daughter is married to the owner of Makiz-Pharma, one of Russia's largest drug suppliers and the Russian distributor of Johnson and Johnson medicines.

Russia Eager to Develop Domestic Drug Production

¶11. (SBU) The problems with implementing the benefits program have led to renewed calls for Russia to develop its domestic drug industry, which may allow the government to economize on the costs of the drug program. In recent years, Russia has seen some of the fastest growth in pharmaceutical sales. In 2005, Russia's drugs market was the twelfth largest worldwide, and sales growth was the second fastest (behind only Brazil and just ahead of China), but the vast bulk of the market is supplied by foreign firms.

¶12. (SBU) Lamenting that over 90 percent of the drugs sold in Russia are made abroad, on March 5 President Putin called for Russia to develop domestic drug production. Russian officials have long considered the country's dependence on foreign drug supplies to be a national security threat.

¶13. (SBU) Last week, the press reported the GOR plans to consolidate various state-owned drug-making enterprises and research institutes into a single holding company, and to sell up to half of the holding companies' shares to foreign drug companies by the end of 2007. Moscow Mayor Luzhkov likewise harbors dreams of turning the greater Moscow region into a national drug production center.

Zurabov Once Again Survives a Scandal, At Least For Now

¶14. (C) COMMENT: This is just the latest in a series of scandals and missteps affecting Zurabov's Ministry, though Khabriyev is the first senior official within the Ministry swept up in these scandals who did not have close business or official ties to Zurabov. Recent events include the senior-level corruption disclosed in mid-November 2006 within the Health Insurance Fund when it procured drugs under the benefits program (Ref B), on-going corruption investigations at the Pension Fund and Social Insurance Fund which came to light in December 2006, and a botched protocol and tender for expensive AIDS drugs in December (Ref C). Even earlier, Zurabov weathered scandals during a failed attempt at pension reform in 2003, when he was head of the Pension Fund, and during the monetization of benefits in 2005 (Refs B and C). A businessman rather than a medical professional, Zurabov remains one of the wealthiest ministers, and closely connected to big business in the fields of health insurance and drug and medical equipment distribution (Refs B and C). He is politically unpopular.

¶15. (C) COMMENT CONTINUED: With plenty of money (in theory) available to cover the 2006 deficit spending under the drug beneficiary program, we suspect that the purported "crisis" with the program may have been partly manufactured to cast Medvedev in the role of a hero for stepping in to resolve the problem. Despite Khabriyev taking the fall for his boss, many observers still continue to believe Zurabov will ultimately be sacked when it will be most politically beneficial, either in advance of the November elections or the March 2008 presidential election.

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